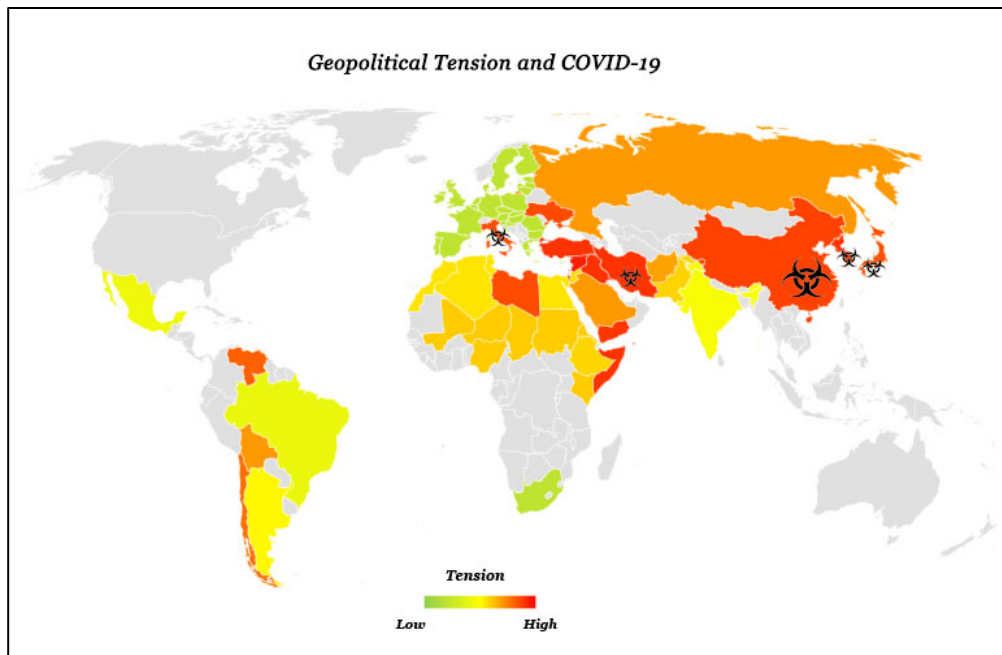


Around the World with Academy Securities

Academy Securities Head of Geopolitical Intelligence, General (ret.) Spider Marks made a great comment on a client call this week – “Don’t take your Eye off the ball”.

We have been producing countless reports on the virus, the markets, and anticipating the ups and downs in real time. The bulk of them are on our [Macro Strategy website](#). Many others are on our Macro list, such as the one that went out at 9:24pm after the President addressed the nation. Our macro strategist once again became very bearish as he felt markets would not respond to the address well. If you want to be added to our macro/market distribution, please don’t hesitate to ask.

In the meantime, we will briefly touch on coronavirus, but then will jump into other geopolitical risks. Those other risks haven’t gone away, just because they aren’t in the headlines with the same frequency as coronavirus. Spider is correct to make sure that you keep an eye on other risks. Some enemies may try to take advantage of the belief that our leaders have their attention focused elsewhere and our economy and markets are under stress.



The Academy GIG Weighs in on Coronavirus

General Chinn reported into us this morning from Hawaii regarding what he is hearing from his contacts in Asia, particularly in Singapore. He noted that Singapore mobilized WoG (Whole of Government) efforts. They did, indeed, learn the lessons from SARS and H1N1 and acted early. Hence if you look at the curve of new cases discovered each day, it is linear rather than exponential. They also developed their own tests early, foreseeing global shortfalls. Combined with frequent public announcements, the testing and detection rates in the country were high. Much more feasible in a city state like Singapore, but they saw the need to take decisive action. Global cooperation will be critical to continue the fight to contain this pandemic.

Our Geopolitical Intelligence Group is also very concerned about the fact that the coronavirus has hit Iran so hard. What does it mean that many of Iran's leadership, including the Supreme Leader, have been exposed to the coronavirus and all are older than 60 years old? With the level of unrest in the aftermath of the protests following the accidental shoot down of the Ukrainian airliner, we feel Iran could be under more pressure to either act out (as we covered in the February 14th [Around the World](#)) or move their weapons program forward. An example of this is the recent rocket attack on coalition troops in Iraq, which killed two Americans and a British soldier. The group that carried out the attack was an Iraqi militia group tied to Iran. U.S. and British forces conducted a retaliatory strike on March 12th.

“[I] Would not forget Iran and while we know the coronavirus is impacting the country, our approach to them may only be enhancing their drive to achieve nukes. Recent articles highlight this. In my view, there's little doubt that the coronavirus is bringing out all the opportunists. During a period of competition, it's no surprise that all our

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competitor nation-states are looking to gain an advantage, while we focus on the home front.” **General Rhett Hernandez**

Front and Center – Russia and Saudi Arabia Square off on Oil Production

On Friday March 6th, Russia refused to go along with an agreement to reduce oil production in the wake of the coronavirus driven global demand slowdown. The major oil producing nations (OPEC+) did not agree on a new production cut of 1.5 million barrels per day or to an extension of the existing 2.1 million barrels per day cut that was set to expire at the end of March. Russia, which was reticent to an extension of the cuts let alone additional ones, did not take the strong-arm tactic lightly and broke away from the deal to coordinate with OPEC on production. The oil market was hit hard, with the fallout continuing March 9th and oil prices falling the most since the 1991 Gulf War. Russia is focused on market share and growing U.S. shale oil has threatened Russia’s dominance in Asia. Russia would prefer to keep prices low in order to hurt the U.S. producers, many of which are highly levered. In response, Saudi Arabia has now “weaponized” their production capacity and announced that it would increase production by 26% on April 1, up to 12.3 million barrels per day. They also stated that they would continue to discount the price of oil in Asia, which would further erode Russia’s market share in the region.



“The dramatic drop in global oil prices was triggered by reduced demand, particularly in Asia, due to the coronavirus outbreak. However, Russia’s willingness to sell oil against OPEC’s planned reduced production is another example of Putin’s aim to check or pushback on the United States wherever he can. While Russia is not part of the Organization of the Petroleum Exporting Countries, they made a deal to coordinate production three years ago. OPEC agreed last week to cut production to keep prices higher, but Russia opted out of the plan. Putin views the current situation as another opportunity to check U.S. global power by keeping oil prices low and hurting the U.S. shale oil industry. The U.S. has become an oil exporter, recently passing both Russia and Saudi Arabia as the world’s leading oil producer in large part due to shale oil production.

Putin has been competing militarily with the U.S. for influence across the globe and has been winning in numerous places such as Syria, Ukraine, and Crimea. He yearns for the days where oil could be used as a weapon against U.S. interests. Expect this current economic competition opportunity using oil to continue if he thinks he can permanently damage the U.S. shale oil market. In the end, Putin’s plan could backfire regarding oil revenue, market share, and in the larger competition with the U.S. Russia’s economy is centered on exporting oil and he can only support lower prices for so long.” **General Robert Walsh**

“For the Saudis, oil produces the revenue that pays patronage to the tribes for support and loyalty to the monarchy; so, oil is more than just an economic revenue generator, it also produces social stability. They do the same to non-oil producing Arab nations by subsidizing oil costs to keep prices low and that is particularly important in a state like Jordan.” **General Frank Kearney**

What makes these events even more interesting is the fact that Putin is also positioning for a clean slate in term limits with a proposed constitutional amendment. If these changes are adopted (the State Duma approved them this week, and there is a nationwide vote on the constitutional amendment in April), instead of stepping down after his term ends in 2024, he could run for two more terms, which would mean Putin could remain in power until 2036.

“Putin never misses an opportunity to take advantage of a crisis...or to manufacture a crisis. In this case, the crisis was handed to him. The world’s focus is on the spread of the COVID-19 virus and its market implications, not Putin’s

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strategy to maintain power now bolstered by collapsing oil prices. Nothing is quiet about Putin's "quiet" steps to realize his strategy. These two interconnected challenges are pure political gold to Putin giving the Russian people every reason to keep an autocratic leader in place to navigate choppy waters. Nobody can accurately predict calm. Putin loves the chaos." **General Spider Marks**

"Putin will likely die in office and there is not much we can do about it. Not sure I see that as an issue since it is probably inevitable. There is probably an argument to be made that an end of Putin's reign could have greater negative impact on the market than his continuance." **General Mastin Robeson**

Update on the "Peace" Deal with the Taliban

This week, there were two presidential inaugurations in Afghanistan, one for the incumbent President Ashraf Ghani, and the other for Abdullah Abdullah, who served as Chief Executive Officer of the Unity Government since the last (also contested) election in 2014. Ghani was declared the winner and Abdullah protested the results. The issue at hand is that the peace deal, signed with the Taliban on February 29th, calls for intra-Afghan talks to have begun on March 10th. However, the Taliban stated it would not commence those discussions until 5,000 Taliban prisoners are released. On March 10th, it was announced that the process of a phased release of prisoners would begin shortly. However, the Taliban immediately rejected this and demanded all the prisoners be released prior to talks commencing. Ghani, who initially protested the release, eventually came around to the plan, likely as part of U.S. recognition of his victory. The peace process will be fraught with issues (only days after the agreement was signed, the U.S. conducted a drone strike on the Taliban), but it all starts with the intra-Afghan talks, which we hope will commence soon.

"President Trump campaigned on getting U.S. troops out of the Middle East and recently stated that countries have to take care of themselves. He also said it was possible that the Taliban could seize power after the U.S. left. The Taliban understand this potential outcome with President Trump's intent to leave. They are only agreeing to a peace deal to fuel the speed of the U.S. exit. They have little intent of abiding by the deal in the longer term. They see the peace deal as a way of first ensuring the withdrawal of U.S. forces, then the beginning of a concerted campaign to attack the U.S. backed Afghanistan government, and finally regaining control of the country. The potential outcome could look very much like the fall of Saigon, only much worse, with the country becoming another terrorist safe haven." **General Robert Walsh**

"I do not believe we know everything going on here. I am less concerned about the string of events that recently occurred (agreement, strike, etc.). Trump will try to fulfill a campaign promise before the election, and the Taliban thinks they can wait us out to their advantage. It will not surprise me if we quickly drop to 8,600 troops for the election advantage (by June), but not go below 8,600 after the election. The "right 8,600" can be very effective for an extended period. I do not see dropping to 8,600 as cutting and running. My guess is that GEN Miller knows exactly what he is doing here and has a plan that is achievable. I do not see this as problematic at this point." **General Mastin Robeson**

"Undoubtedly the Taliban is auguring for power in Afghanistan. But before he died, Mullah Omar stated the Taliban would not host foreign fighters again because it led to their losing power. It was a statement of fact devoid of any deal or peace treaty being negotiated. Now their self-interests are served by them gaining and then retaining power. If we continue to have a national security strategy aimed at defeating terrorism at its source (as the 2017 NSS states), I believe the Taliban will be very careful about allowing foreign fighters inside their circle again. That's not to say some couldn't set up shop in ungoverned terrain or that large enough payments wouldn't influence the Taliban, but I generally believe that they will fight to take back power and then hold what they've got. Our test will be on how we respond during the clash between the Afghan government/military/police and the Taliban. That's a civil war, something we should, for the most part, leave to them, save our vital interests of denying terrorist safe havens. With targeted intel and QRF in the region in Bagram/Kandahar, we should be able to monitor the foreign fighter situation." **General Anthony Tata**

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Turkey and Syria: Ceasefire in the Idlib Region

As we reported in our two previous issues on [February 14](#) and [March 1](#), Turkey is engaged with its neighbor, Syria over the Idlib region. Russia is backing President Assad’s forces as they try to take all of Syria. Turkey does not want that to happen for a variety of reasons and as of the last report, was coming dangerously close to war with Syria. However, President Erdogan met with President Putin and on March 5th, a ceasefire in the Idlib was agreed upon, which established a plan for joint Russian and Turkish patrols. In 2018, the Sochi Agreement also called for peace and created a buffer zone in the Idlib, but this agreement was repeatedly violated. President Erdogan threatened the EU saying he would not preclude the over 3 million refugees (now in Turkey) from traveling into Europe and had asked for U.S. support as well. Erdogan got what he wanted from Russia, now we will have to see if the peace can hold in the Idlib.



*“Turkey’s President Erdogan is doing exactly what he said he would do by no longer enforcing an agreement with the European Union to stop the flow of migrants into Greece. He has yet to gain the EU’s support to provide increased funding to deal with the migrants, help stop the Russian backed Syrian incursion into Syria’s Idlib province, including supporting a no-fly zone, and in developing an area in northern Syria for refugee resettlement. He views the threat of another European migration crisis like five years ago as leverage to support his objectives in Syria. However, European Union countries are far less willing to accept migrants into their countries after years of backlash from their citizens. Yesterday’s EU emergency talks in Brussels are a sign that Erdogan’s threat to “open the gates” to Europe is beginning to work in his favor.” **General Robert Walsh***

*“I agree with Bob that Erdogan knows exactly what he is doing. He is very effectively using the refugee threat to extort funds from Europe...and I predict he will be successful. We agreed to fight a war in Kosovo to help avert a perceived, impending financial disaster the refugee threat was generating in Europe. Europe will pay Erdogan to keep the refugees out of Europe.” **General Mastin Robeson***

North Korean Missile Tests

For the second time in a week, North Korea fired short range projectiles into the sea. While these two launches appear to be part of a training exercise, they are the first two instances in over three months.

*“North Korea’s recent missile launches are a sign of Kim’s continued frustration with the U.S. and are an attempt to bring the U.S. back to the negotiating table with more leverage. The missile launches, while of the shorter-range variety, are still in violation of United Nations resolutions. Kim is getting backed further into a corner without President Trump’s support for further engagement. China is becoming more and more his only lifeline. U.S. led sanctions are crippling the North Korean economy with Kim’s only support coming from China. This is not the outcome Kim hoped for with the once promising negotiations with President Trump and his administration. South Korea’s and Japan’s easing of their trade war and increased military cooperation has also frustrated Kim’s attempt to drive a wedge between the allies.” **General Robert Walsh***

Markets at a Glance – Extreme Volatility

Volatility increased since the last ‘Around the World’ report. VIX crossed 75 on Thursday, a level consistent with extreme risk in the markets. Virtually every day, some asset class seems to experience a shockingly large move. On Friday, as we are writing this, EM continues to struggle, but more concerning is that front-end funding markets are under pressure, even for domestic, U.S. investment grade corporates. That is an issue that needs to be addressed. With the extreme volatility, it is much more useful to keep you updated via our macro distributions as anything written here could be completely wrong by the time we are done typing, let alone by the time we send.

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